Classifications of Activities

Operating Activities

- Primary activities of buying, selling and delivering goods or providing services
- Also includes support activities such as administration
- Direct method of measuring
    - classifies operating inflows as either
        - Collections from customers
        - Collections of interest
        - Other operating receipts
    - Classifies operating outflows as either
        - Payments to suppliers
        - Payments to employees'
        - Payment of interest
        - other

Investing Activities

- Includes lending money and collecting on the loans, investing in other companies and buying and selling property and equipment
- Often involve changes in non-current assets

Financing Activities

- Includes obtaining capital from the owner and providing owner with a return on investment, as well as capital obtained from banks/lenders/financiers and repaying the amounts borrowed
- Often involve changes in non-current liabilities and owner's equity

Collections from Customers

- Accounts Receivable = Credit sales - cash collections of credit sales
- If the accounts receivable account decreases during a period, then the business has collected more cash from customers than the amount of current credit sales made
- If the accounts receivable account increases during a period, then the business has collected less cash from customers than the amount of current credit sales made
- Cash collection = Sales Revenue +/- change in account receivable

Payments to suppliers and employees

- Cash payments to suppliers = COGS +/- change in inventory +/- change in accounts payable

Analysis of Cash Flow Statement

- Helps users evaluate:
    - Solvency
    - Ability to generate cash to cover operating activities
    - Debt servicing ability
    - Ability to finance expansion
- Internal users compare it to their cash budget to evaluate performance and plan for the future

Ratios:

- Operating cash flow margin
    - = Net cash flow from operating activities/ net sales
    - Generates how much net cash the business generates from each dollar of net sales
- Cash return on total assets
    - = Net cash from operating activities + interest paid/average total assets